

FINAL TRANSCRIPT

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BPI - Bridgepoint Education Inc at BMO Capital Markets Back to School Education Conference

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Jeff Silber

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PRESENTATION

Jeff Silber - *BMO Capital Markets - Analyst*

Okay. Great. We're going to continue with our next set of presenters. The company is called Bridgepoint Education. BPI is the ticker. I'm thrilled to introduce two representatives of the Company here this morning, Andrew Clark, the President, CEO and Founder of Bridgepoint. He's joined by Dan Devine, who is Executive Vice President and CFO. And I'll turn the mic over to Andrew.

Andrew Clark - *Bridgepoint Education, Inc. - CEO and President*

All right. Thank you very much, Jeff. It's great to be back at the conference again this year. Just quickly put this slide up for everybody. I want to start out this morning by just talking about the tremendously large market opportunity that we see in higher education at Bridgepoint. Really, in this slide, you can see how the private sector market share has increased since 2004. And I think one of the big points to take away here is that of the employed population of about 154 million Americans over the age of 25, there's 98 million Americans out there that have no college education.

If you look here, in terms of the growth of higher education, you can see that we've added 10 million students in this country in the last 30 years. But what really is important on this slide from our perspective is that tuition has vastly outpaced the enrollment growth. You can see that four-year public institutions between 1980 and 2010 saw a 258% increase in tuition. Four-year private institutions saw 177% increase in tuition. This threatens, in our belief, student access and achievement, which are very important as we look to globally compete against other countries.

If you look specifically at the online population within higher education, you can see from this chart here that online education is really becoming mainstream. It is 12% of the total headcount in the US higher education system, and 30% of those students are adult students or graduate students.

You can see the private sector's role in online higher education. 40% of the online market is held by the private sector, and of course, 10% of the overall US higher ed market is held by the private sector.

As many of you in this room know, there's obvious benefits to anybody achieving a college education. This slide highlights the opportunities in terms of the median earnings relative to a high school graduate, the unemployment rate, and the lifetime earnings advantages. And it's somewhat obvious, but I think is important to pull out -- point out, that with increased educational attainment, you have increased earnings, increased lifetime earnings, and less likelihood of being unemployed.

Where we find ourselves today is that 43 states have cut assistance to public institutions. As a result, they have had to make reductions in faculty. They have a lot of teacher's assistants in some cases that are having to teach classes; class sizes are getting larger. They're having to offset that decrease in subsidies with significant tuition increases, as I mentioned earlier.



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And the question is, where does it all go from there? Does it continue to get worse? And as it does, does that restrict the access and the ability for an American to go back to school and achieve a college degree and be able to provide themselves with that opportunity to compete in a global economy? At the same time, you can see the cost to the taxpayer of a public funded model versus a private sector model. And I think what the conclusion should be from this slide is that there's definitely a role for the private sector here to play in terms of providing access to Americans who want to achieve a college education.

Moving on, I just want to speak about Bridgepoint and our approach to quality education. Those of you familiar with the Company will know that we have two recognizable brands, Ashford University and University of the Rockies. Both HLC accredited. Ashford University is pursuing WASC accreditation, which I'll speak to later. Ashford University is in Iowa, has a very traditional campus setting, 17 NAIA teams. We have associate's degrees all the way through graduate degrees.

University of Phoenix is a graduate institution with master's and doctoral degrees, and it is located in Colorado Springs, Colorado. You can see that if you look at us by degree levels, 74% of our students are bachelor's degree-seeking students, about, 12% are graduate and doctoral degree-seeking students.

You can see from a programmatic standpoint how we break down on this slide from business education, healthcare and liberal arts. 99% of our students are online. 71% are female. 50% are minority. And the average age of our student is 35 years.

We think that an important way to differentiate Bridgepoint is through innovation. And so we've used Constellation, which is a proprietary learning platform developed at Bridgepoint, to help us differentiate ourselves and really provide for an increased and better student experience. It provides digital content, i.e., text books to our students at a much more affordable rate. They used to spend \$150 on a textbook; now it's about \$75 a course. We plan to have 80% of our students on Constellation by the end of 2012. And we have a patent pending for Constellation.

We also -- we're one of the first companies to provide mobility to our students through either Apple or the Android platform. We have Ashford University Mobile as well as the University of the Rockies Mobile. Students can access their grade book. They can access administration, classroom. They can get in there and post discussions. They have access to their faculty. And I'll talk a little bit more about that later on.

Waypoint Outcomes is a assessment software system that is provided and used by both of our institutions but also 40 other institutions allowing us to aggregate student learning outcome data and be able to roll that data up to a professor, to a dean, or ultimately at the institutional level.

Just to give you a little clearer picture of Constellation -- this is a screenshot of what Constellation looks like in our iPad application. Constellation itself was recognized in 2011's Horizon Report as a technology to watch. It was a finalist in the SIIA's 2011 CODIE Awards.

Most importantly, speaking to student experience, when we survey our students on Constellation, 78% say it improves their learning. It's very feature-rich and has a quizzing ability for self-assessment, interactive timelines, stimulations, and animations. You have the ability to create and review highlights. You can make annotations and do a heck of a lot more with it.

It's very versatile. Constellation is not only just something that we offer through an iPad application. Students can access Constellation via the web. They also can download it to very many devices, including -- besides the iPad, they can download it to their Kindle. They can download audio files and listen to that on any MP3 device or on iPods.

The content that is provided is actually developed by our faculty or a faculty outside of our institutions in conjunction with professional authors. It's peer-reviewed by experts. And then we have an editorial staff that we hired from the various well-known publishing companies who helped us take a set of best practices in terms of editorial review as we developed those textbooks.

To give you a little better idea of Constellation, I'm going to move to a quick video.

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(Video Playing)

So you can see from that video just how dynamic and diverse Constellation is. One important thing to point out about Constellation is that when a student uses it, the highlights and annotations actually are up in the cloud. They don't sit on the device. So a student can access their textbook and any changes they've made to the textbook via the web and do that from any device that they choose.

In terms of Ashford University and the University of the Rockies Mobile, we launched the University of the Rockies Mobile in April of 2011, I think making us the first in the private sector to do that. It's free to students. As I mentioned, users can do a variety of things, including participate in their online discussions, contact key university staff in terms of support. They can check grades and a whole lot more.

In our first month of providing this to our students, we had over 40,000 visits, so more than 500,000 page views. It's been downloaded, this application, in 37 countries and every state in the United States. If you go to the App Store, you can see Ashford University Mobile. You can see the reviews that our students have given this. And we score very, very high with our students in terms of what we've provided through this application.

Just a little bit about how we approach things from an academic standpoint and a quality standpoint in addition to innovation. We really are looking at exemplary learning models. Ashford University's learning models uses a rigorous course program development process where we're actually encapsulating instructional design advances that have been developed over the past [four] years. It's very student-centered. Courses and program learning outcomes then are aligned with the assessments. And Waypoint, as I mentioned, is a tool for example that Ashford University uses to assess those learning outcomes.

University of the Rockies embodies a similar learning model plus they use very specific -- I think a very specific disciplinary perspective and use a practitioner scholar model where they have faculty that are not only practicing but also have done scholarly work in addition.

Faculty have extensive training in technology and in our teaching methodologies. The faculty developed the rubrics by which we do learning outcomes assessment. And we use a faculty mentoring process to ensure that our faculty are able to deliver the kind of learning experience that we expect.

From a transparency standpoint, Bridgepoint provided a site back in probably I think it was around February or March of this year, regarding transparency. And we really have embraced the idea of transparency and accountability throughout both of our institutions. You can go to Ashford University or the University of the Rockies and you'll see quite a robust data disclosure on those sites -- everything from student characteristics, satisfaction, performance, alumni data. Both of our institutions are committed to transparency and making sure that our students are making an informed decision about their education, that our institutions are continuously working on improving and getting better, and that we have accountability for both public and private funds.

Everything that we do in this regard currently exceeds any federal requirements.

Our assessment site, for example, you can go to Ashford and find this site. You'll see all of the things that are on the screen here -- everything from student and faculty characteristics; to intended learning outcomes; student performance versus third-party general education assessments; how we benchmarked ourselves against various national surveys; alumni satisfaction, etc.

This is a screenshot right here of what the assessment site looks like and the kind of data that you can find on the assessment site.

So when we benchmark our performance, these are just a few of the examples that you would find in terms of validation. You can see how Ashford University outperforms national benchmarks with our students compared to how students do on a national

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level. In the SAILS test of information literacy, Ashford students exceeded seven of the eight benchmarks. You can see in the UniLOA survey that we outperformed on six of the seven benchmarks. You can see our Ashford alumni, 97% reported overall satisfaction with the institution, with 95% saying they would recommend Ashford University to others.

We want to make sure that we're continuously improving on quality, on the student experience, and we believe that enhanced performance leads to better persistence. You can see on the slide that our bachelor students attempting more than 12 courses exhibited an annual retention rate of almost 84%. And our bachelor students who transfer in 60-plus credits or more have a 78% retention rate.

Turning to the regulatory environment, as everybody in the room I think knows, a new set of regulations went into effect on July 1. We are compliant with those rules effective July 1. The impact on the Company in the third quarter, we observed a more positive trend in admissions counselor productivity versus the previous expectations that we had initially thought. So we're pleased to see over the past 10, 12 weeks here how admissions counselor productivity has trended for us.

What we think that means going forward is that our new enrollment growth will begin to turn positive over -- year over year within the second quarter of 2012. Our total enrollment growth will be positive in the second half of 2012. And for the year of 2012, we think the new enrollments and our total enrollments and our revenue will all be positive over 2011.

From a gainful employment perspective, very quickly, none of our programs -- all of our programs are expected to meet the new requirements. We've not had to make any material changes in that regard. In terms of the WASC migration, which I mentioned earlier where Ashford University is going through the process to become WASC accredited, we have met all the eligibility criteria. We are submitting our self-study in the fourth quarter of this year. And we will have our visit by WASC in March of next year.

I'm going to wrap up here and then turn it over to Dan, but I just thought I would provide this last slide and bring together everything that I've been talking about. I really believe that the student today has become much more sophisticated and views value, meaning the quality of their experience and their education and affordability as being key components to their decision-making process.

You can see here how Bridgepoint has done in terms of market share from between 2007 and 2010. I think our approach to quality vis-a-vis innovation and the student learning experience, combined with a very affordable price point where we're typically anywhere from 17% to 50% less expensive than many of our competitors, has provided this opportunity for Bridgepoint to continue and take market share.

As I demonstrated at the very beginning of the presentation, this is a tremendously large market. I think there remains, for years to come, opportunity for Bridgepoint to take this value proposition of quality and affordability through innovation and be able to take additional market share over the years.

With that, I'll turn it over to Dan.

Dan Devine - Bridgepoint Education, Inc. - CFO

Thank you, Andrew. Good morning. You can see from our slide of enrollments and revenue, we have been very consistent in our ability to grow both enrollments and our revenue over the last four years. See 2007, we had enrollment of 12,600. And in 2011, we anticipate exiting the year -- or I'm sorry, the second half of the year, we come into 84,500. So that 72% growth rate has a transition to 100% growth rate in revenues over the same period.

In addition to that, we've been able to manage the Company effectively and deliver consistent improvements in all the key areas of our business, which is our operating margin has increased from a 4.6% in 2007, first half of the year, it was at 35.9%.

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And you can see that all the key three areas that we review, which are instructional costs and services, marketing and promotional, and G&A, have consistently improved over those periods as well.

All that improvement and all that revenue growth and enrollment growth has delivered strong operating results. You can see net cash provided by operations for 2010 was \$189 million and earnings per share for the year are expected to be \$2.62.

With that, I'll turn it back over to Jeff. And we'll take some questions.

QUESTIONS AND ANSWERS

Jeff Silber - *BMO Capital Markets - Analyst*

Okay. We'd do a few minutes for Q&A from the audience. Again, if you can raise your hand and just wait for the mic to come over to you, I'd appreciate it. Yes. We've got a couple of questions here. Sorry, keep your hand raised so the mic runners can see there's a question in the back there.

Unidentified Audience Member

Have you guys explored the possibility of licensing the technology that you've developed internally and/or the content that you've created internally?

Andrew Clark - *Bridgepoint Education, Inc. - CEO and President*

You know, I get that question quite frequently and we haven't made any decisions in that regard. Right now, our primary focus is on continuing to develop this internally for our students at Ashford and at the University of the Rockies.

I will share with you that we get very positive feedback, and I gave you one example of it from students who use Constellation. Unfortunately, because we haven't developed it for all of our courses, sometimes students who go on Constellation, they have to go back to the traditional textbook, and we actually get complaints about having to go back to their traditional textbook. So we're looking forward to getting to that 80% next year and making sure that 80% of our courses, or of our students, excuse me, are covered with Constellation. That's our primary goal.

Jeff Silber - *BMO Capital Markets - Analyst*

We got a question in front.

Unidentified Audience Member

I have a question about sort of -- you had a very nice slide about market opportunity there. EMC in its filings disclosed 5.6 million leads in the last 12 months, and I think Corinthian had over 3 million. That's like 8 million leads. Can you talk about the size of the market opportunities because you go back to the same people and they sign up after they have said no, or it just seems like a very, very large number of leads given that maybe your addressable population is like 60 million people or so?

Andrew Clark - *Bridgepoint Education, Inc. - CEO and President*

Well I mean I can -- from a high level, I can tell you, first of all, we're not having any difficulty attracting prospective students. And I think, in large part for a couple of reasons, one is the size of the market, but I think another one, is what I was talking about

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earlier, in terms of really the more sophisticated consumer, how they view value, vis-a-vis quality and affordability, we communicate that message pretty consistently in our marketing efforts, and so we've done pretty well in that regard.

I think higher-priced institutions are probably experiencing more difficulty, more competitive issues. I think we are one of the leaders in terms of a more affordable tuition. And I think that has prevented us maybe from experiencing some of the issues that others have experienced.

Jeff Silber - BMO Capital Markets - Analyst

There's a question on the back over here.

Unidentified Audience Member

Hi. Could you just talk about how your enrollment counselor workforce is perhaps different or how you motivate them differently such that their productivity is outperforming the productivity of some of your peers?

Andrew Clark - Bridgepoint Education, Inc. - CEO and President

Well, I mean, our admissions counselors -- we focus very intently on the intrinsic, altruistic reasons why they're there in terms of the difference that they're able to make in someone's life by increasing their educational level. I mean, education is a game changer especially for the students that we're working with. And we've had a transition period here under the new rules.

I think the biggest challenge for us in all of that has really been management and management's ability to work with their admissions counselors and help them better understand how they're doing with regards to that more altruistic view of changing somebody's life.

It's difficult when regulations say that you can't -- that admissions counselors can't be measured on the job for which they are there to do, and those people very much want feedback in terms of how they're doing. So I think our management has worked really hard at making sure that we get feedback to them about the student's experience and the positive outcomes that have occurred as a result of that student being enrolled.

Jeff Silber - BMO Capital Markets - Analyst

Okay. Great. We've got time for one more question in the front up here. I'll get to -- I'm sorry, can you wait for the mic to come up please? Thank you.

Unidentified Audience Member

Yes. Thank you. A two-part question, one on the lead gen, do you guys do that in-house or do you outsource? And if so, how do you see that trending going forward? And the second part is on the differentiation, you outlined innovation and some aspects of that; is that how you position to prospective students? Or if not, what else do you tell folks about choosing your institution versus other competitors?

Andrew Clark - Bridgepoint Education, Inc. - CEO and President

Yes, in terms of lead generation, we've always managed that internally. We do have an outside vendor that we work with, Datamark. We've worked with them historically since 2005. So we've had a long relationship with them. And our approach to

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lead generation has been fairly consistent over the years, with the changes being that we're looking at continuous improvement; and data analytics; and how can we try and better understand prospective students, what those students might look like that would persist better and be less likely to default, etc. So we've used analytics a lot more intensely over the last 12 to 18 months.

In terms of positioning the students around innovation, I don't think we -- we're not -- our message to them isn't particularly, hey -- we're innovative but our message is around the student experience. And I certainly know that our admissions counselors, when they're talking to students about -- to a working adult, to the single parent with a job, that your textbook can be available to you anywhere that you are because it's in the cloud, it's on the web, you can make changes to it. That matters to this type of student who has a very busy lifestyle and needs flexibility and the convenience that a digital textbook provides. Anything that we can do that lowers the cost burden for students and improves the student experience, we think that's the right thing to do and we think that adds to the quality that the student ultimately receives.

Jeff Silber - BMO Capital Markets - Analyst

Okay. Great. I think we're going to have to end right here, if you can help me thank Andrew and Dan for presenting the Bridgepoint Education story. Thank you, guys, so much.

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